

**MINUTES OF THE REGULAR MEETING OF THE  
ARIZONA STATE RETIREMENT SYSTEM  
BOARD of TRUSTEES**

**HELD ON  
May 21, 2004  
8:30 a.m., MST**

The Arizona State Retirement System (ASRS) Board met in the 10<sup>th</sup> Floor Board Room, 3300 N. Central Avenue, Phoenix, Arizona. Per the direction of Mr. Karl Polen, Chairman of the ASRS Board, Mr. Jim Bruner, Vice Chairperson, called the meeting to order at 8:30 a.m., MST.

The meeting was teleconferenced to the ASRS office at 7660 E. Broadway, Tucson, Arizona 85710.

**1. Call to Order; Roll Call; Opening Remarks**

Present: Mr. Karl Polen, Chairperson (Via teleconference)  
Mr. Jim Bruner, Vice Chairperson  
Ms. Charlotte Borchert  
Mr. Jaime Gutierrez  
Dr. Keith Meredith  
Mr. Michael Townsend  
Mr. Steven Zeman  
Ms. Anne Mariucci

Absent: Mr. Lawrence Trachtenberg

A quorum was present for the purpose of conducting business.

**2. Approval of Minutes of the April 16, 2004 Regular Meeting of the ASRS Board**

**Motion:** Ms. Charlotte Borchert moved to approve the minutes of the April 16, 2004, Regular meeting of the ASRS Board.

Mr. Steven Zeman seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

**3. Approval of Consent Schedule**

**Motion:** Ms. Charlotte Borchert moved to approve Refunds, Death Benefits, Retirements, and Transfers

*And*

Approve the Application and Agreements with the following employers:

- City of Sedona

*And*

Approve the notice of Rulemaking Docket Opening for the Supplement Retirement Savings Plan and for Contributions Not Withheld.

*And*

Approve and adopt the revised Internal Audit Charter.

Mr. Steven Zeman seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

**4. Presentation, Discussion and Appropriate Action Regarding Adopting the “1994 Group Annuity Mortality Table Static Projected to 2005 with Scale AA Unisex 50% Male/50% Female” as the Mortality Table for the State Retirement Defined Contribution Program (the System)**

Mr. Charlie Chittenden, Actuary, Mellon Human Resources and Investor Solutions, provided background information on changing the System’s Mortality Table. The experience study of 1997-2002 indicated a need to update the Mortality Table. A new table would have reduced the funded status of the System, as of July 1, 2003, from 100% to 97%. The funded status is anticipated, as of July 1, 2004, to be about 104% before the change, and about 101% after the change. The new assumption will help to avoid future losses due to retirees living longer than expected.

**Motion:** Dr. Keith Meredith moved to adopt the “1994 Group Annuity Mortality Static Table Projected to 2005 with Scale AA Unisex 50% Male/50% Female” effective June 30, 2004, as the new mortality table for the State Retirement Defined Contribution Program (the System).

Ms. Charlotte Borchert seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

**5. Presentation, Discussion and Appropriate Action Regarding the Notice of Emergency Rulemaking, Notice of Rulemaking Docket Opening, and the Notice of Proposed Rulemaking for R2-8-202, Amending the Mortality Table for the State Retirement Defined Contribution Program (the System)**

Ms. Nancy Johnson, Rules Coordinator, pointed out that in the previous agenda item it was recommended that the ASRS Board approve the new mortality table. Since the new mortality table was amended, R2-8-202 needs to be amended to include the new table by June 30, 2004. The rule will not become effective by that date going through the regular rulemaking process, so both an Emergency Rulemaking and a Proposed Rulemaking have been prepared.

**Motion:** Ms. Charlotte Borchert moved to approve the Notice of Emergency Rulemaking, Notice of Rulemaking Docket Opening, and the Notice of Proposed Rulemaking for R2-8-202, amending the Mortality Table for the State Retirement Defined Contribution Program (the System).

Dr. Keith Meredith seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

**6. Presentation, Discussion and Appropriate Action Regarding 2004 Legislation as requested by the External Affairs Review Committee**

Ms. Denisse Gee, Government Relations Officer, provided a status update on the following bills:

- HB 2008 ASRS; Health Care Premium Subsidy - *This bill became effective when the Governor signed it on April 16, 2004.*
- HB 2052 ASRS; Incentive Costs - *This bill was signed by the Governor on April 19, 2004.*
- HB 2077 ASRS; Long Term Disability - *This bill was signed by the Governor on April 19, 2004.*
- HB 2078 ASRS; Asset Management; Limitations - *This bill was signed by the Governor on April 13, 2004.*
- HB 2029 ASRS; Service Purchase; Cost - *This bill was transmitted to the Governor for signature on May 17, 2004.*
- HB 2049 ASRS; Membership; Political Subdivisions Entities - *This bill was transmitted to the Governor on May 15, 2004.*
- HB 2082 ASRS; Administrative Account; Appropriations - *This bill was referred to the Senate Appropriations Committee and was not heard during this session.*
- HB 2382 - *This bill was signed by the Governor on April 23, 2004.*
- HB 2600 ASRS; Retiree Health Insurance Study - *This bill died as it was held in House Rules.*
- HB 2599 - *This bill died having never gotten a hearing in its chamber of origin.*
- HB 2650 Investment Protection Committee - *This bill died in House Rules.*

- SB 1176 – *This bill died having never had a hearing before the Senate Appropriations Committee.*
- SB 1290 – *This bill died as it was retained in Senate COW and Senate Floor.*
- SB 1343 State Investment; Terrorist Ties – *This bill was signed by the Governor on May 10, 2004.*

#### **7. Presentation, Discussion and Appropriate Action Regarding the Supplemental Retirement Savings Plan (SRSP)**

Mr. Paul Matson, Director, explained that the ASRS staff recommends that the Board adopt the amended and restated SRSP Statement. Although the SRSP is not ready to be implemented, Board approval is necessary at this time because certain provisions of the amended and restated Plan is subject to a June 30 Internal Revenue Service deadline. Failure to approve these provisions prior to this deadline would result in disqualification of the SRSP. Mr. Matson stated he will return to the Board in several months, prior to the implementation of the SRSP, for a detailed discussion regarding the provisions and the rollout of the SRSP.

**Motion:** Ms. Charlotte Borchert moved to adopt the ASRS Supplemental Retirement Savings Plan as it has been amended and restated in the form circulated to the Board.

*And*

Moved to direct and authorize the Director of the ASRS to execute such amended and restated plan for and on behalf of the ASRS Board.

Mr. Jaime Gutierrez seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

#### **8. Presentation, Discussion and Appropriate Action Regarding Global Tactical Asset Allocation (GTAA) Policy Targets**

Mr. Gary Dokes, Chief Investment Officer, stated that the Investment Review Committee is recommending establishment of a formal policy target for GTAA at 10%  $\pm$ 2% of the total assets of the ASRS.

**Motion:** Ms. Charlotte Borchert moved to approve the adoption of a formal policy target with ranges for GTAA of 10%  $\pm$ 2% of the market value of the ASRS Plan Assets.

Dr. Keith Meredith seconded the motion.

#### **9. Presentation, Discussion and Appropriate Action Regarding the Total Fund Performance Overview for the Period Ending March 31, 2004**

Mr. Terry Dennison, Principal, Mercer Investment Consulting, presented an economic and market review and reported on the Total Fund for the period ending March 31, 2004.

	<b>Quarter</b>	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>Inception</b>
<b>Total Fund</b>	3.2%	32.6%	4.7%	3.5%	11.1%
<b>Benchmark*</b>	2.4	29.5	3.7	1.9	9.3
<b>RM Public Funds Median</b>	3.5	31.2	5.7	5.2	
<b>Percentile Ranking</b>	75	34	90	97	

\*Interim Benchmark of 56% S&P 500/28% LB Aggregate/16% EAFE, which incorporates a proration of 6% real estate.

**Policy History:**

1/1/89-12/31/91 is 60% S&P 500/40% LB Aggregate,  
1/1/92-12/31/94 is 50% S&P 500/40% LB Aggregate/10% EAFE,  
1/1/95-6/30/97 is 45% S&P 500/40% LB Aggregate/15% EAFE,  
7/1/97-12/31/99 is 50% S&P 500/35% LB Aggregate/15% EAFE,  
1/1/00-09/30/03 is 53% S&P 500/30% LB Aggregate/17% EAFE,  
10/1/03-Present is 53% S&P 500/26% LB Aggregate/15% EAFE/6% Custom Real Estate Benchmark

## **10. Presentation, Discussion and Appropriate Action Regarding Large Cap Investment Manager Review**

Mr. Gary Dokes and Mr. Terry Dennison provided a review of the Large Cap investment managers. As of the end of the first quarter, the Large Cap portfolio had \$8.18 billion in assets.

Mr. Dennison provided an overview on the six external investment managers and on the two internally managed portfolios. Franklin Portfolio Associates has outperformed the S&P 500 Index. INTECH has outperformed the S&P Growth Index whereas Goldman Sachs Asset Management under-performed this same Index. LSV Asset Management has outperformed the S&P 500 Value Index. State Street Global Advisors under-performed the S&P 500 Value Index. BGI Core Equity Index is tracking the S&P 500 Index as expected.

The ASRS E1 portfolio outperformed the S&P 500 Index for the one-year and the three-year periods. The ASRS E2 portfolio is outperforming the S&P 500 Index for all time periods.

Ms. Anne Mariucci had a question pertaining to the percentage of concentration of the ASRS' portfolio relative to the total separate accounts under management with each of the external investment managers being presented. Per Mr. Dokes, this is a relatively low number. Mr. Dennison stated that this information will be incorporated into future presentations.

Mr. Jaime Gutierrez inquired as to the investment manager fees and whether these fees are negotiable. Mr. Dokes responded that these fees are negotiated as much as possible in an effort to minimize these fees.

Additionally, Ms. Mariucci suggested that a legend for the Mercer rating system be included in future presentations. Mr. Dennison stated he would add a legend for the future presentations.

### **11. Discussion Regarding the Election of Board Officers**

Mr. Jim Bruner reminded the Board that per the ASRS Board Governance Handbook, the ASRS Board will elect a Board Chairperson and Vice Chairperson during its June 2004 meeting. The Chairperson and Vice Chairperson will serve for the fiscal year following the election, July 1, 2004-June 30, 2005.

### **12. Director's Report**

Mr. Paul Matson, Director, commended Mr. Bernie Glick, Chief Internal Auditor, and his staff for all their hard work. Mr. Glick, and his staff, are responsible for many internal reviews in audit and compliance for the agency.

### **13. Possible Presentation and Discussion Regarding Board Committee Updates**

Mr. Jim Bruner, Chairperson, Investment Review Committee (IRC), stated the next IRC meeting is scheduled for Tuesday, June 1, 2004, at 5:30 p.m. The IRC will be discussing the Real Estate portfolio.

Ms. Charlotte Borchert, Chairperson, Operations Review Committee (ORC), stated the ORC is currently working on the 06/07 budget. The ASRS staff has consistently provided updates to the ORC regarding this process. Additionally, the ORC is in the process of evaluating the health insurance proposals received as a result of the request for proposals.

Dr. Keith Meredith, Chairperson, External Affairs Committee (EAC), stated that the process for new legislation for next year has begun. All requests are due to the EAC by June 4, 2004.

Mr. Jaime Gutierrez had a question regarding employers who become delinquent. Specifically, when a charter school shuts down and they have a delinquent account with the ASRS, who makes up for this loss? Mr. Gutierrez stated that he is assuming that the employees for such a charter school are no longer employed and therefore, have not been vested. Per Ms. Nancy Linssen, Assistant Director, Financial Services Division, the employees are vested to the extent that these employees made contributions while the Employer was still in existence. Mr. Gutierrez inquired if this is a problem when the Employer goes out of business. Is there an expedited claim process for the ASRS at the Treasurer's office since the State Treasurer disperses funding to charter schools? How does this impact the employees of these charter schools? Mr. Matson stated that he will have the appropriate ASRS personnel respond to these questions at the June Board meeting.

### **14. Call to the Public**

None.

**15. The next ASRS Board meeting is scheduled for Friday, June 18, 2004, at 8:30 a.m., at 3300 N. Central Avenue, Phoenix, Arizona.**

**16. Adjournment of the ASRS Board**

Mr. Bruner adjourned the May 21, 2004 Board meeting at 10:37 a.m.

ARIZONA STATE RETIREMENT SYSTEM

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Marina Chaves, Secretary	Date	Paul Matson, Director	Date